

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268-0001

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POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268-0001

POSTAL RATE AND FEE CHANGES, 2000

Docket No. R2000-1

RESPONSE OF MICHAEL D. BRADLEY
TO NOTICE OF INQUIRY NO. 4
ON BEHALF OF
THE UNITED STATES POSTAL SERVICE

August 21, 2000

Response of Prof. Michael D. Bradley to Notice of Inquiry No. 4

On August 2, 2000 the Commission issued Notice of Inquiry 4, Concerning Mail Processing Variability Models (hereinafter "NOI 4"). That notice discussed my testimony on mail processing costs in Docket No. R97-1 and requested participants in the current docket to respond to several questions about model specification.

It is not my intention to respond to those questions, as I have not testified about mail processing costs in this docket. However, the Notice of Inquiry makes two statements about what I did in Docket No. R97-1. Those statements are inaccurate, and for the sake of clarifying the record I am submitting this response. I am not disputing matters of opinion or professional judgment. I am simply submitting the correct facts.

NOI 4 states:¹

In Docket No. R97-1, witness Bradley conducted a specification search for a model of mail processing variability. He tested a family of models that lack time indexed coefficients, . . .

This statement is inaccurate. My specification search included models with time-indexed coefficients. My direct testimony in Docket No. R97-1 clearly states:²

I also estimated the panel data model using a correction for time-specific effects in place of the broken trend.

¹ See, Notice of Inquiry 4, Concerning Mail Processing Variability Models, Docket No. R2000-1 at 1.

² See, Direct Testimony of Michael D. Bradley on Behalf of United States Postal Service, Docket No. R97-1, USPS-T-14 at 72, section entitled, "Econometric Equations that Adjust for Time Specific Effects."

NOI 4 goes on to state:³

[witness Bradley] rejected the more restrictive models in favor of the facility-specific fixed-effects model. In Response to Notice of Inquiry No. 4 in R97-1, the facility-specific fixed-effects model was tested and rejected against the general model, which had both time-indexed and facility-indexed coefficients.

This statement is also inaccurate. Notice of Inquiry No. 4 in Docket No. R97-1 did not even address the issue of time indexed coefficients, let alone request a test of the fixed effects model against a model that had both time-indexed and facility-indexed coefficients. That NOI was concerned with testing the fixed-effects model against the set of facility-specific models, not time indexed coefficients. The Notice asked for a response on that very specific issue:⁴

Interested parties are asked to evaluate whether this restriction is statistically supported. They are requested to conduct a statistical test, such as an "F-test," of the stability of the regression slope coefficients across facilities, and to comment on the results.

Consequently, my response did not show that the fixed effects model was rejected in favor of a model that had both time-indexed and facility indexed coefficients. Finally, as show in my direct testimony, the model that had both types of coefficients (often known as the "two-way" model) produced variabilities very similar to those produced by the fixed effects model.⁵


³ See, Notice of Inquiry 4, Concerning Mail Processing Variability Models, Docket No. R2000-1 at 1.

⁴ See, Notice Of Inquiry No. 4 On Mail Processing Variability, Docket No. R97-1, at 3.

⁵ See, Direct Testimony of Michael D. Bradley on Behalf of United States Postal Service, Docket No. R97-1, USPS-T-14 at 74.

DECLARATION

I, Michael D. Bradley, declare under penalty of perjury that the foregoing answers are true and correct, to the best of my knowledge, information, and belief.


Date: August 16, 2000